

- b. Standard Per Diem for each of the five cost centers is determined after facilities with like characteristics concerning a particular cost center are separated into distinct groups. Once a group has been defined for a particular cost center, facilities in a group^{8,9} shall be ordered by position number from one to the number of facilities in the group, arranged by Net Per Diem from the lowest (Number "1") to the highest dollar value Net Per Diem. The number of facilities in the applicable group shall be multiplied by the Maximum Percentile, or a median net per diem may be chosen, with the Maximum Cost per day being determined as a percentage of the median. The Maximum Cost per day for the Administrative and General costs of all nursing facilities eligible for efficiency incentive payments is 105% of the median cost per day within each peer group. For those nursing facilities not eligible for efficiency incentive payments, the Maximum Percentile for Administrative and General costs is the seventieth percentile. The Maximum Percentile is the eighty-fifth for Laundry and Housekeeping and Operation and Maintenance of Plant cost centers. The Maximum Percentile is the ninetieth percentile for the Routine Services and Special Services, Dietary and the Property and Related cost centers. The method for determining the maximum allowable cost per day for nursing and dietary services for those nursing homes in a peer grouping of hospital based facilities will be modified. The current maximum allowable cost per day, set at the 90th percentile of costs for peer group members, will be reduced by 25% of the amount by which the 90th percentile amount for hospital based peer group exceeds the 90th percentile amount for peer groups of free-standing facilities for all hospital based nursing facilities located in a county that is within a Metropolitan Statistical Area (MSA). Such peer groups of free-

Rev.
10/1/98

Rev.
7/1/00

Nursing Facility Services

X-14

TN No. 00-005
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TN No. 99-014

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Effective Date JUL 01 2001

Rev.
7/1/00

standing facilities would not include any peer groups of skilled nursing facilities, intermediate care facilities for the mentally retarded or facilities with less than 50 beds. The resulting product shall be rounded to the closest whole number. If the resulting product falls exactly halfway between two whole numbers, the Standard Per Diem for that group shall be the mean of the Net Per Diems of the two facilities in the group which have position numbers equal to the two whole numbers between which the product lies. The standard Per Diem for a group shall be the Net Per Diem of that facility in the group which has the position number equal to the rounded product determined in accordance with the previous two sentences.

Routine and Special Services Standard Per Diem

For this Standard Per Diem, all nursing facilities shall be grouped according to the mix of patients within the facility and freestanding versus hospital-based, as follows:^{9,10}

Level I Nursing Facility

Hospital-Based Nursing Facility with more than fifty beds

Distinct Part Nursing Facility with more than fifty beds

Level II Nursing Facility (Intermingled Care) with more than fifty beds

Level III Nursing Facility with more than fifty beds

Intermediate Care Facility for the Mentally Retarded

Level III Nursing Facility with fifty beds or less

Hospital-Based, Distinct Part, or Level II Nursing Facility (Intermingled Care) with fifty beds or less

Nursing Facility Services

X-15

Dietary Standard Per Diem

For this Standard Per Diem, all nursing facilities shall be grouped according to the mix of patients within the facility and freestanding versus hospital-based, as follows:

Level I Nursing Facility

Hospital-Based Nursing Facility

Intermediate Care Facility for the Mentally Retarded

Level II, Level III, or Distinct Part Nursing Facility with fifty beds or less

Level II, Level III, or Distinct Part Nursing facility with fifty-one to one hundred beds

Level II, Level III, or Distinct Part Nursing Facility with more than one hundred beds

Laundry and Housekeeping and Operation and Maintenance of Plant Standard Per Diem

For this Standard Per Diem, all nursing facilities shall be grouped according to the mix of patients within the facility and freestanding versus hospital-based, as follows:

Level I, Level II, Level III, Hospital-Based, or Distinct Part Nursing Facility with fifty beds or less

Level I, Level II, Level III, Hospital-Based, or Distinct Part Nursing Facility with fifty-one to one hundred beds

Nursing Facility Services

X-16

Level I, Level II, Level III, Hospital-Based, or Distinct Part
Nursing Facility with more than one hundred beds

Intermediate Care Facility for the Mentally Retarded

Administrative and General Standard Per Diem

For this Standard Per Diem, all nursing facilities shall be grouped
according to the mix of patients within the facility and freestanding
versus hospital-based, as follows:

Level I, Level II, Level III, Hospital-Based, or Distinct Part
Nursing Facility with fifty or less beds

Level I, Level II, Level III, Hospital-Based, or Distinct Part
Nursing Facility with fifty-one to one hundred beds

Level I, Level II, Level III, Hospital-Based, or Distinct Part
Nursing Facility with more than one hundred beds

Intermediate Care Facility for the Mentally Retarded

Property and Related Standard Per Diem

For this Standard Per Diem, all nursing facilities shall be grouped
by the age of the facility as follows:¹¹

All facilities constructed five or less than five years ago

All facilities constructed ten or less than ten years ago, but more
than five years ago

All facilities constructed more than ten years ago

Rev. c. The Efficiency Per Diem represents the summation of the

Nursing Facility Services

X-17

7/1/00

Efficiency Per Diem for each of the five cost centers. If the Net Per Diem is equal to or exceeds the Standard Per Diem in any cost center, or if the Net Per Diem is equal to or less than 15% of the Standard Per Diem, the Efficiency Per Diem for the cost center is zero (\$0.00). If the Net Per Diem is less than the Standard Per Diem in any cost center, and if the Net Per Diem is more than 15% of the Standard Per Diem, the Efficiency Per Diem for the cost center is calculated by subtracting the Net Per Diem from the Standard Per Diem for that cost center and then multiplying the difference by .75. The product represents the Efficiency Per Diem for that cost center subject to the following maximums:

	Routine and Special Services Maximum Efficiency Payment	\$0.53
Rev. 7/1/00	Dietary Maximum Efficiency Payment	\$0.22
Rev. 7/1/00	Laundry and Housekeeping and Operation and Maintenance of Plant Maximum Efficiency Payment	\$0.41
Rev. 7/1/00	Administrative and General Maximum Efficiency Payment	\$0.37
	Property and Related Maximum Efficiency Payment	\$0.40

1002.3 Total Allowed Per Diem Billing Rate For Facilities For Which A
Cost Report Cannot Be Used To Set A Billing Rate

If the Division determines that a cost report cannot be used to set a billing rate the per diem rate will be established, as follows:

Nursing Facility Services

X-18

TN No. 00-005
Supersedes
TN No. 99-014

Approval Date DEC 07 2000

Effective Date JUL 01 2000

- Rev. 10/1/98
- a) Freestanding facilities classified as Level I Nursing Facilities by the Division after June 30, 1992, will be reimbursed the lower of: projected costs; the weighted average of all current freestanding Level I Nursing Facilities per diem rates in the State; or 90% of the four Non-Property and Related Standard Per Diems plus the appropriate growth allowance and Property and Related Net Per Diem. The facility will maintain the assigned rate until it has established a cost report basis which can be used to establish a per diem rate. When changes in ownership occur, new owners will receive the prior owner's per diem until a cost report basis can be used to establish a new per diem rate. (See Appendix D2(h).)
- Rev. 10/1/98
- b) Newly enrolled hospital-based facilities, facilities regrouped to the hospital-based classification, or any facility with fifty or fewer beds will be reimbursed the lower of: projected costs; or 90% of the appropriate cost center ceilings, plus a growth allowance and the appropriate Property and Related Net Per Diem until a cost report is submitted which can be used to establish a rate. When changes in ownership occur, new owners will receive the prior owner's per diem until a cost report basis can be used to establish a new per diem rate. (See Appendix D2(h).)
- c) In all other instances (except as noted below for newly facilities) where the Division determines that a cost report cannot be used to set a reimbursement rate, the Total Allowed Per Diem Billing Rate will be resolved as described in the provisions discussed below for unauditable cost reports.

The Total Allowed Per Diem Billing Rate for homes determined by the Division to be newly constructed

Nursing Facility Services

X-19

facilities is equal to 95% of the four Non-Property and Related Standard Per Diem amounts plus the appropriate growth allowance and Property and Related Net Per Diem.

The Property and Related Net Per Diem referred to in subsections (a) through (c) above is equal to either the Dodge Index Rate as determined under Section 1002.5(g) through (n), or the lesser of projected costs or the maximum allowable costs as determined by Section 1002.5(a) divided by that number of patient days which represents a 95% rate of occupancy.

Nursing Facility Services

X-20

TN No. 00-005
Supersedes
TN No. 99-014

Approval Date DEC 07 2003

Effective Date JUL 01 2003

Rev.
10/1/98

If the Division determines that a cost report which was to be used to set a reimbursement rate is unauditible (i.e., the Division's auditors cannot render an opinion using commonly accepted auditing practices on the filed cost report, either on the desk audit or on-site audit), or unreliable (See Appendix D2(h).), the Division may reimburse the facility the lower of the following:

- The last Total Allowed Per Diem Billing Rate issued prior to the reimbursement period to be covered by the unauditible cost report;
- The Total Allowed Per Diem Billing Rate calculated from the unauditible cost report; or
- The Total Allowed Per Diem Billing Rate calculated according to 90% of the four Non-Property and Related Standard Per Diem amounts plus the appropriate growth allowance and Property and Related Net Per Diem.

Rev.
10/1/98

Once a cost report becomes auditable and appropriate, the Total Allowed Per Diem Billing Rate will then be calculated using the audited cost report as a basis. The resulting reimbursement rate will then be applied to the appropriate period.

Effective April 1, 1982, the Property and Related cost center reimbursement for those facilities whose cost reimbursement is limited to the Standard (90th percentile) Per Diem in this cost center will be based upon the Standard Per Diem calculated from the cost reports for the year ending June 30, 1981.

1002.4 Conditions Under Which Projected Costs Are Allowable

Nursing Facility Services

X-21

TN No. 00-005
Supersedes
TN No. 99-014

Approval Date DEC 07 2000

Effective Date JUL 01 2000

Rev.
10/1/98

Originally submitted cost projections for expenditures incurred and effective on or after July 1, 1996, are not reimbursed or allowable as projected costs after June 30, 1996. The balance of this Section 1002.4 as it directly relates to originally submitted non-property cost projections does not apply.

Rev.
10/1/98

Projected costs may be submitted by a facility when costs have occurred or are expected to occur after the end of the cost reporting year that result in actual current cash outlays for the conditions listed in paragraphs (a) through (e) below. All projected costs submitted by a facility are subject to review and approval by

Nursing Facility Services

X-22

TN No. 00-005
Supersedes
TN No. 99-014

Approval Date DEC 07 2000

Effective Date JUL 01 2001

Rev.
10/1/98

the Division. If a facility has submitted projected costs which are approved by the Division, expenditures not already paid must be paid within thirty days of Divisional approval and remain in effect for the period of time specified in the projection request or the projected costs will be disallowed and any payments recouped. Therefore, to be considered a projectable expense, each cost item must be a determined amount, an actual realized expense and must be liquidated within thirty days by actual cash payment.

Projected costs submitted under the conditions of this paragraph will be annualized for the current calendar year and the applicable portion of the next calendar year.

The provider is under a continuing duty to advise the Division immediately upon any change related to the expenditure of projected costs. Projected costs will not be reimbursed above the amounts actually paid in accordance with the projection request as approved by the Division.

- a. A facility which changes its classification from Level III to any other classification must meet all the requirements of Section 1003 and all other applicable federal regulations. Therefore, a facility may submit projected costs over and above reported historical costs which are necessary to meet minimum requirements for the new classification. The cost projection information must be submitted within thirty days of the change. If approved by the Division, the resulting rate adjustment will be based upon actual expenses paid and will be allowable only in the applicable reimbursement period(s). Any rate adjustment that results from the submission of such projections will be reimbursed beginning the first of the month following the payment of costs; however, reimbursement will not begin prior to the later of the date of change or the date a new Statement of Participation is executed.

Nursing Facility Services

X-23

TN No. 00-005
Supersedes
TN No. 99-014

Approval Date DEC 07 2000

Effective Date JUL 01 2001

- b. Property transactions as defined in Sections 1002.5(a), 1002.5(g) and 1002.8 of this manual (except in the case of bed additions, which may have little or no effect on reimbursement) require the submission of projected costs that represent positive or negative changes in historical Property and Related costs on the Property Transaction Projection Information Package. The Property Transaction Projection Information Package must be submitted within thirty days of the property transaction. If a property transaction causes an increase in a provider's property and related reimbursement rate and the Property Transaction Projection Information Package is not received within thirty days of the transaction, the effective date for the property and related projection reimbursement will be the first of the month following the receipt of the projection package. For all other property transactions, the effective date for the property and related projection reimbursement will be the first of the month following the transaction. These costs will be evaluated against the maximum allowable costs determined under Section 1002.5 of this manual.
- c. Significant and non-recurring repairs and maintenance expenses, including painting and wall covering, which exceed ten percent of historical Operation and Maintenance of Plant costs may be submitted as projected costs. The cost projection information must be submitted prior to or within thirty days of when the cost was paid. If approved by the Division, the resulting rate adjustment will be based upon actual expenses paid and will be allowable only in the applicable reimbursement period(s). The first date allowable for reimbursement will be the first of the month following the payment of costs.
- d. Significant changes in fringe benefits applicable to all employees, if the cost of such changes represent the summation of costs of typically related benefits and exceed

Nursing Facility Services

X-24

the total cost of historical salaries by four percent or more, may be submitted as projected costs. The amount of a change is determined by comparison of the current level of annual costs to the costs, including prior projections, already included in the billing rate calculation for the fringe benefits. Typically related benefits do not include such combinations as the costs of worker's compensation with group health insurance, individual retirement accounts, or other unlike components, to meet the four percent criterion discussed above. A request to project a workers' compensation cost increase attributable to the absence of prior workers' compensation coverage will be denied. Projections for sick leave are not allowable. Projections for employee stock ownership plans or stock bonus plans that were not both in operation and approved by the Division prior to October 13, 1993 are not allowable. The cost projection information must be submitted prior to or within thirty days of when the cost was paid. If approved by the Division, the resulting rate adjustment will be based upon actual expenses paid and will be allowable only in the applicable reimbursement period(s). The first date allowable for reimbursement will be the first of the month following the payment of costs.

- e. Other extraordinary and material increases in capital expenditures may be submitted as projected costs. Facilities should only submit projection requests when each expense is required to correct a deficiency cited by state or federal agencies. Appropriate documentation including deficiency reports should be submitted to substantiate the projection request. The cost projection information must be submitted prior to or within thirty days of when the cost was paid. If approved by the Division, the resulting rate adjustment will be based upon actual expenses paid and will be allowable only in the applicable reimbursement period(s). The first date allowable for reimbursement will

Nursing Facility Services

X-25

be the first of the month following the payment of costs. Such expenses will not qualify as projected costs unless all of the following conditions are satisfied:

- The expenses are critical to the viability of the facility and to the welfare of the nursing facility residents.
- The expenses are capital expenditures classified in the Property and Related cost center which exceed ten percent of Property and Related actual costs included on the latest cost report filed with the Division.
- The expenses are mandated by state or federal agencies.
- The expenses are for unforeseeable mandated capital expenditures.

Allowed projected costs will be excluded from the computation of growth allowance; accordingly, the computations of allowable per diem to be used in growth allowance computations must exclude all projected costs.

Facilities reimbursed based on 95% or 90% of the standards cannot receive a projection until actual historical costs are used to set reimbursement rates. Projected costs will not be used to increase cost over the Standard Per Diem in any cost center except in the case of a facility that is subject to the Dodge Index Rate as determined under Sections 1002.5 (h) through (l) and which has an addition, expansion or renovation in accordance with the conditions described in Section 1002.5 (n) (ii). When a facility has a property transaction resulting in the payment of the Dodge Index

Nursing Facility Services

X-26

rate, prior projections of capital expenditures will not be included in the Dodge Index reimbursement rate.

Cost projections for expenses paid by facilities after October 1, 1991, which would be effective on and after November 1, 1991, will be effective no earlier than July 1, 1992, except for projections of workers' compensation cost increases, property transactions and costs incurred as a result of a change to two levels of care. Projections submitted for the excepted items can be effective prior to July 1, 1992, if they meet the criteria of Section 1002.4.

Projections will not be allowed for existing facilities regrouped to the hospital-based classification. Any cost increases for the change to the hospital-based classification will be reimbursed when the first filed Medicare cost report is used to file the Medicaid cost report to set a per diem rate.

1002.5 Property and Related Reimbursement Limitations

The Division has established additional criteria to determine the reasonableness of property and related costs. This section is divided into two major subsections based on the effective date of a property transaction.

Property Transactions after July 13, 1978 and before June 15, 1983

- a. For any facility having a property transaction with an effective date after July 13, 1978, and before June 15, 1983, the steps described in paragraphs (b) through (f) of this subsection will be performed to judge the reasonableness of related depreciation, interest expense, lease expense or equity reported on the Cost Report.¹²

Nursing Facility Services

X-27

- b. A replacement cost appraisal of the facility as of the date of the transaction acceptable to the Division will be required that:

Provides the replacement cost of the facility, including equipment, by the fixed asset classifications set forth on Schedule D of the Cost Report;

Provides an estimated percent of depreciation on the appraised replacement cost of the facility for each fixed asset classification set forth on Schedule D of the Cost Report;

Provides the appraised value of the land based on use as nursing facility property using the comparative value approach; and

Is conducted by an appraiser who is licensed by the Georgia Real Estate Appraisers Board (as defined in O.C.G.A. §43-39A-1 through §43-39A-27.) and who certifies to the Division that neither s/he nor any associates of their firm has any direct or indirect relationship to the seller or purchaser of the facility being appraised.

- c. For assessing the appropriateness of depreciation expense, the depreciated replacement cost will be divided by the remaining life (based on Divisional guideline lives reduced by estimated percent depreciation in appraisal) to determine the maximum annual allowable depreciation for each year the facility is owned by the purchaser.
- d. For assessing the appropriateness of a lease expense, the depreciation replacement cost will be multiplied by the Loan Constant to determine the maximum annual allowable lease expense for each year the facility is leased under the transaction. The Loan Constant is the constant amount

Nursing Facility Services

X-28

required to amortize the depreciated replacement cost over the remaining life of the facility (based on Divisional guideline, useful lives are reduced by estimated percent depreciation in appraisal) and provide a return on the depreciated replacement cost of 11.313%. No increase in reimbursement for changes in lease or depreciation expenses above the **maximum reimbursement currently** being allowed by the Division, will be given to those facilities whose reimbursement exceeds the Standard Per Diem of the age group to which that facility is assigned.

- e. If the total depreciated replacement cost plus land value is less than the purchase price, a reduction in equity capital will be required by the amount of such excess cost.

If the provider has negative equity, or if the adjustment of the prior sentence creates negative equity, interest expense on the related financing to the extent negative equity was created by the adjustment would be disallowed.

- f. For any facility having an initial¹⁴ transaction after July 13, 1978 but before June 15, 1983, and which has a subsequent transaction¹⁵ on or after October 1, 1980, but before June 15, 1983, by the same party, a related party, or a different operator, reimbursement during the ten years following the initial transaction will be the lesser of:
 - (i) reported costs of the subsequent transaction,¹⁵
 - (ii) costs as determined by the replacement cost appraisal if valued at the date of any lease, sale, or change of ownership occurring after July 13, 1978,¹⁵
 - (iii) the Standard Per Diem, if the subsequent transaction occurred after May 6, 1981, but before June 15, 1983.

Nursing Facility Services

X-29

Property Transactions after June 14, 1983

- g. For any facility having a property transaction, including a renewal of a lease, with an effective date after June 14, 1983, excluding additions, expansions and renovations, the steps described in paragraphs (h) through (m) of this subsection comprise the Dodge Index method of property and related reimbursement which will be performed to set the property and related net per diem for a facility.^{12,19,20} Facilities reimbursed for actual property and related costs will be reimbursed at the Dodge Index rate if actual property and related costs per diem become less than the Dodge Index rate or if there is a property transaction according to this section. Facilities reimbursed at the Dodge Index rate will remain at the Dodge Index rate for all subsequent periods. This will be referred to as the property rate component for the remainder of this subsection. The property rate component is then used in the computation of a facility's Allowed Per Diem as defined in Sections 1002.2 and 1002.3.
- h. The property rate component is comprised of four sub-components:
- (i) Building and Building Equipment
 - (ii) Major and Minor Moveable Equipment
 - (iii) Motor Vehicle Equipment
 - (iv) Land

The method of calculating the rate for each of these sub-components is described in the following paragraphs.

Nursing Facility Services

X-30

- i. The Building and Building Equipment sub-component is calculated by dividing the reasonable construction acquisition cost¹⁶ by total patient days.¹⁷

An owned or leased facility which has a property transaction will be reimbursed at the rate of its building and building equipment sub- component unless the transaction is not arms-length.¹² Effective July 1, 1995, this policy will not apply.

When a provider facility makes capital renovations or additions which are mandated by state or federal law or are equal to at least \$1,000.00 per bed, the provider may apply for a rate adjustment as described in Section 1002.4. The limitations that apply to the renovation or addition are described in paragraph (n).

For facilities having their property transaction after June 14, 1983 (i.e., newly constructed facilities), the building and building equipment component will be determined in accordance with the effective date of that property transaction as defined in Section 1002.1(h). The regional Dodge Construction Index from April-September of the calendar year preceding the property transaction will be used to determine a building rate component. The return rate for Dodge Index facilities is 11%.¹⁸

- j. The Division will calculate a Moveable Equipment (major and minor) cost per bed at current replacement cost. For 1983 the value has been set at \$1,600.00 per bed.

Effective April 1, 1990, this Moveable Equipment value was increased to \$2176.00 per bed and effective July 1, 1993, will be increased to \$2430.00 per bed. A composite life of twelve years will be used to compute the amortization factor.¹⁶ The major and minor moveable

Nursing Facility Services

X-31

equipment sub-component is calculated by multiplying the cost per bed by the amortization factor¹⁶ and dividing the product by total patient days.¹⁷ The current replacement cost will be reviewed by the Division of Medical Assistance and may be indexed utilizing the medical equipment price index published by the Health Care Financing Administration or another appropriate proxy for moveable equipment cost.

- k. The Division will calculate a reasonable allowance for Motor Vehicle Equipment. For 1983, the value has been set at \$8,000.00 per 100 beds or fraction thereof. A life of four years will be used to compute the amortization factor. The motor vehicle equipment sub-component as calculated by multiplying the reasonable allowance by the amortization factor¹⁶ and dividing the product by total patient days.¹⁷

The reasonable allowance will be reviewed by the Division and may be indexed utilizing the transportation component of the Consumer Price Index or another appropriate proxy for motor vehicle equipment cost.

- l. In calculating the Land sub-component, acreage will be screened for cost reasonableness and limited to the lower of actual acres or the maximum established for the facility. The maximum varies according to the number of beds and facility location (rural or urban).

For a facility in an urban area (i.e., a Metropolitan Statistical Area-MSA-county), land is limited to three acres for a 100 bed home plus one acre for each additional 100 beds or fraction thereof. The maximum cost allowed per acre is \$70,800. For any provider which applies for an adjustment to its Property and Related Net Per Diem on or after April 1, 1987 due in any part to costs associated with

Nursing Facility Services

X-32

the acquisition of land (including, but not limited to purchases and leases), such land acquisition costs shall be allowable only to the extent that they do not exceed \$70,800 per acre. In a rural area (non-MSA), land is limited to five acres for a 100 bed home plus one acre for each additional 100 beds or fraction thereof. The maximum cost allowed per acre is \$42,480. For any provider which applies for an adjustment to its Property Related Net Per Diem on or after April 1, 1987 due in any part to costs associated with the acquisition of land (including, but not limited to, purchases and leases), such land acquisition costs shall be allowable only to the extent that they do not exceed \$42,480 per acre.

Reimbursement for additional land for facilities in urban and rural locations will be allowed to meet requirements such as local codes for sewage disposal, parking, and density.

Original land cost should be documented by original accounting records, county records, or an acceptable reasonable basis such as an allocation procedure. If the original land cost cannot be properly documented, no allowed rate will be calculated.

- (i) To calculate the rate for facilities with land areas exceeding the maximum allowable:
 - (a) Divide the allowable original land acquisition cost by the total acreage.
 - (b) Multiply the average acquisition cost per acre by the maximum allowable land areas as determined by the rules outlined above.

Nursing Facility Services

X-33

- (c) Multiply the result in (i)(b) by the return rate.¹⁸
- (d) Divide the result from (i)(c) by the number of patient days.¹⁷
- (ii) To calculate the rate for facilities with land areas at or below the maximum allowable:
 - (a) Multiply the allowable land and acquisition cost by the return rate.¹⁸
 - (b) Divide the result from 2(ii) by the number of patient days.¹⁷

The property rate component will be set at the sum of the building and building equipment, moveable equipment, motor vehicle equipment and land rate sub-components.

- m. For any facility having an Initial Transaction¹⁴ after July 13, 1978, and which has a subsequent transaction¹⁵ on or after June 15, 1983, by the same party, a related party, or a different operator within ten years after the initial transaction, reimbursement is defined in subparagraphs (i) and (ii) below.
 - (i) During the ten years following an initial transaction prior to June 15, 1983, reimbursement will be the lesser of:
 - (a) costs as determined by subparagraph (f) (i) and (f) (ii),

Nursing Facility Services

X-34